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Testimony of Deborah Chernoff
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Before the Human Services Committee
IN RE: House Bill 5586, House Bill 5812, Senate Bill 231

Good afternoon, Senator Moore, Representative Abercrombie and members of the Human Services Committee.

For the record, my name is Deborah Chernoff and I serve as the Public Policy Director for District 1199, representing some 25,000 health care workers in Connecticut, about 8,000 of who work in skilled nursing homes.

There are three bills before this committee today – House Bills 5586 and 5812, and Senate Bill 231 – which recognize that **the rates currently paid fall far short of the actual cost of care, short-changing the staff and residents of the home and imposing increasingly insupportable financial pressures on facilities.**

However, implementing Cost of Living Adjustments to cover rising utility, food bills or “*other costs not under the control of nursing home owners*” does not deal with the fundamental flaw in our current reimbursement system – a flaw that keeps many caregivers in poverty; creates high turnover and keeps staffing levels too low for consistent quality care.

Our reimbursement system is ostensibly based on the actual cost of providing care. However, Connecticut has imposed caps on the reimbursement of different categories of nursing home costs, limiting reimbursement to a certain percentage above the median cost. (See attached chart for the current cost caps.)

While that might sound like a reasonable way to limit spending, **these caps actually create a strong financial disincentive for nursing homes to pay livable wages, offer affordable health care and provide sufficient staff to provide compassionate quality care on every shift.** At a time when both income inequality and the population of elderly residents in need of care are rising to the highest levels in our recorded history, these caps impose inexorable downward pressure on wages and services. Those caps have also been ratcheted down over the years, increasing the financial disincentive over time.

Of course, nursing homes need to keep the lights and the heat on. But the kind of care we all want for our own parents and grandparent requires **people** – nurses, aides, cooks, housekeepers and other support staff. Our capped reimbursement system means that any nursing home that chooses to pay better, offer more affordable insurance or good retirement benefits, or adds more staff to care for residents, is going to suffer financially for doing the right thing for their residents, their workers and their local communities.

Not only does the current reimbursement system keep too many long-time caregivers in poverty, it drives nursing homes to terrible practices and policies like assigning staff to less-than-full time schedules and “staffing to census.” That means that if the number of residents is drops below a certain level on any given day, staff will be told not to report to work or sent home from work. Schedules are disrupted, paychecks shorted and residents deprived of the additional care they might have received. I have personal experience of this – when my 91 year old mother broke her hip and was admitted to a nursing home for rehab, the first thing we were told when our ambulance arrived was “Sorry, we’re short on staff -- there’s only one nurse on today because we staff to census and we weren’t expecting any admissions this weekend.”

We would suggest that this committee consider raising the caps on those costs that immediately impact patient care: direct and indirect care costs. Direct care is fundamentally the costs of wages and associated benefits for nursing staff, included Certified Nursing Assistants and is currently capped at 135% of the median cost. Raising that cap to, say, 150% of the median would allow nursing homes that want to invest in better care to pay more livable wages, assign more full-time schedules and staff their facilities better. Indirect care costs include housekeeping, laundry, dietary, maintenance and other support staff – who are also critical to the health, safety and comfort of residents – and are capped at 115% of the median. For the portion of indirect care costs that covers wages and benefits for those staff members, the cap might be restored to its 1992 level, 130% of the median.

It’s worth noting that there is no cap on the reimbursement of capital-related expenses such as property taxes, insurance costs or equipment leases. Surely our investment in “human capital” like the caregivers who give our parents and grandparent the love, attention and support they need in our nursing homes should reflect our commitment to quality care and dignity in aging. If we are going to make progress towards repairing a broken reimbursement system, we need to start with the fundamentals and stop penalizing employers for investing in better jobs and better care.

Attached: excerpts from the “Medicaid Rate Setting Nursing Home Overview,” Dept. of Social Services website

State Department of Social Services

Medicaid Rate Setting Nursing Home Overview**Cost Basis of Rates**

For the rate year ending June 30, 2014, the cost report for the year ending September 30, 2011 was used as the base year for rate computation purposes. Under 17b-340 CGS, the Commissioner is permitted to use the most recent cost reports for determining the property component of each facility rate to reflect capital improvements. In this way, facilities receive additional revenue through their rates to account for debt service and related costs associated with major property improvements. Currently, the cost reports for the year ended September 30, 2012 are being used to calculate the property included in the rates for the period ending June 30, 2014.

Categorization of Costs

Desk reviewed reported expenditures are categorized into five cost groups as follows in the rate computation:

1. Direct - Nursing and nurse aide personnel salaries, related fringe benefits and nursing pool costs.
2. Indirect - Professional fees, dietary, housekeeping, laundry personnel costs and expenses and supplies related to patient care.
3. Administrative and General - Maintenance and plant operation expenses, and salaries and related fringe benefits for administrative and maintenance personnel.
4. Property (Fair Rent) - A fair rental value allowance is calculated to yield a constant amount each year in lieu of interest and depreciation costs. The allowance for the use of real property (non-moveable equipment) other than land is determined by amortizing the base value of property over its remaining useful life, using the Hospital Fixed Asset Guide Book, and applying a rate of return (ROR) on the base value. The ROR is linked to the Medicare borrowing rate and is currently 2.310% for assets placed in service in 2012. Under state statute the maximum ROR is 11%. Non-profit facilities receive the lower of the fair rental value allowance or actual interest and depreciation plus certain other disallowed costs.
5. Capital Related - Property taxes, insurance expenses, moveable equipment leases and moveable equipment depreciation.

Allowable Cost Maximums

Facility costs, calculated on a per diem basis by category, are limited to maximums established as percentages of median costs in the Direct, Indirect and Administrative/General categories. The allowable cost maximums are currently as follows:

Allowable Cost Maximum Percentages By Category (% of median)

	Direct	Indirect	Admin./Gen.
Effect. 7/1/01-Current	135%	115%	100%

Under the statute, there are separate "peer groupings" by licensure type within the Direct category and for facilities in Fairfield County in recognition of higher wages in that area.

Current Cost Component Limit Amounts

		Direct	Indirect	Admin./General
Fairfield County				
	CCNH Licensure	\$192.18	\$62.16	\$34.37
	RHNS Licensure	\$177.64	\$62.16	\$34.37
Non-Fairfield County				
	CCNH Licensure	\$167.46	\$62.16	\$34.37
	RHNS Licensure	\$119.70	\$62.16	\$34.37

Source: <http://www.ct.gov/dss/cwp/view.asp?a=4637&q=544902>